RAISE THE MINIMUM WAGE? A PERENNIAL ISSUE

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The purchasing power of the minimum wage today at $5.15 is 19% lower than it was in 1998, when it first went into effect. It is also the lowest it has been since before 1960. Legislation proposed in Congress this year would have increased the minimum to $7.25 per hour. Several questions arise: How many workers would be affected? What would be the cost? Would there be an adverse impact on employment? Which businesses would be affected? What are the exceptions to the minimum wage laws? What are the characteristics of minimum wage workers? What is the rationale behind having a minimum wage? These and other questions are addressed below.

How many workers would be affected?

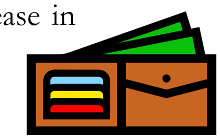
Nationwide, only about 2.7% of hourly workers were paid at or below the minimum wage in 2004, and for Mississippi, the figure was 2.6%, or 17,000 workers (out of a total of 658,000 hourly workers), according to the Bureau of Labor Statistics (BLS) website. Workers earning up to $7.24 an hour (another 3.1% of hourly workers) would also be affected, for a total of 7.3 million workers nationwide, while another 1 million could benefit from "spillover" effects, according to estimates of the Economic Policy Institute (EPI 1/06).

In Mississippi, the BLS reports that there were more workers paid less than the minimum wage (11,000) than were paid the minimum wage (6,000). To the extent that these workers were exempted from minimum wage coverage, they would not be covered by the proposed new minimum either. About 57% of the U.S. workforce (58.6% in Mississippi) is paid at hourly rates. Most of the rest of the workforce are salaried workers who earn at least $455 a week – these workers are generally exempt from minimum wage and overtime regulations.

What would be the cost?

Increasing the minimum wage to $7.25 an hour would increase total wages paid in Mississippi by about 0.7% per year for two years.[1] The increase is low because minimum wage hourly workers take up such a small percentage of total employment and even less of the total wage bill. [To see this, consider that total wages paid in 2004 were $34,288 million. The 17,000 hourly workers paid at or below the minimum wage would have earned at most $182 million ($5.15 x 40 x 52 x 17,000) or 0.5% of the total wage bill. Doubling their wages would only increase the wage bill by that amount, or 0.5%.]

Workers earning up to $8 per hour are likely to benefit from the increase in the minimum wage. In fact, in 2003, the average wage of the bottom 20% of Mississippi workers was $7.76. If half of these 223 thousand workers received an increase of $2.10 per hour, the total increase in the wage bill in 2003 would have been about 1.4% in one year, or, divided over two years, 0.7% per year. By 2007, however, these low wage workers will account for a smaller percentage of both employment and wages paid, which will reduce the 0.7% estimate.



Will there be an adverse impact on employment?

It is difficult to isolate the effect of changes in the minimum wage on aggregate employment. In Mississippi, there was strong employment growth immediately following the last minimum wage increase (1997-1998). The minimum wage rose 21% over that two-year period. Nationally, studies of that period show little effect on employment; EPI reviewed several studies to come to that conclusion (see "Minimum Wage: A Select Bibliography" and "Frequently Asked Questions" 1/06).[2]

However, a higher minimum wage does tend to reduce the number of hours of labor demanded by employers, while increasing the willingness of labor to work those hours.

Low-profit firms with a high percentage of minimum wage workers are particularly affected. In Mississippi, after the last increase in the minimum wage, there was a net increase in employment from 1996 to 1998 of 32,600 jobs. Hill estimated 400 more jobs would have been added if the minimum wage had remained the same. At the same time, over 100,000 workers benefited from the higher wages.

According to the study by Hill, the industry breakdown of workers earning the minimum wage or less at that time shows that 30% were in retail trade, 19% in professional and related services, 17% in manufacturing, 6% in personal services, 6% in agriculture/forestry/fisheries, and 4.5% in construction. The remaining industries each accounted for 3% or less of these workers.[3] In retail trade, eating and drinking places were the single largest category. Many of these workers, however, may not have been covered by the Fair Labor Standards Act (FLSA) which regulates the minimum wage.

What are the characteristics of U.S. minimum wage workers?

Most minimum wage workers are adults, and most (66%) are women.[3] Only 22% of hourly workers earning the minimum wage or less in 2004 were aged 16 to 19, according to the Department of Labor (DOL). The average minimum wage worker in the U.S. is providing more than half (54%) of his or her family's weekly earnings, with 36% of these workers contributing 100% of family earnings (EPI 1/06). Although single mothers make up only 5.3% of the workforce, they account for 10.4% of those who would benefit from an increase in the minimum wage.

Close to half (44%) of workers earning less than $7.25 per hour work fulltime, and another third (35%) work between 20 and 34 hours per week. African-Americans, who make up 11% of the U.S. workforce, are 15% of workers affected by an increase, and Hispanics, who make up 13% of the workforce, are 20% of these workers. Households in the bottom 20% of the income scale would receive 38% of the benefits of a minimum wage increase, and another 21% of the benefit would go to households in the next 20% of the income scale (EPI 1/06).

What are the exceptions to the minimum wage laws? Should there be more?

The Department of Labor (DOL) permits the payment of sub-minimum wages to several categories of workers, including vocational education students, fulltime students employed by retail or service establishments, agriculture or institutions of higher education. Also included are individuals "whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed," says the DOL website. A certificate is required.

In addition, there is a youth minimum wage rate, currently $4.26 per hour, which may be paid employees under 20 years of age for 90 calendar days after they are first employed. Employees of small businesses, with sales of less than $500,000, may be exempted as well, if those employees do not engage in covered activities, such as interstate commercial activities, including authorizing the use of a credit card or making long distance telephone calls. Domestic service employees, such as housekeepers, are covered as well.

Whether or not exemptions should be expanded is a political question. In general, the benefits go to low-wage workers and to taxpayers, whose expenditures on food stamps and other anti-poverty programs are reduced, while the costs are shouldered by employers and customers. The job creation effect of a low minimum wage is typically cited as its main benefit, along with lower labor costs which boost profitability.

What is the rationale behind minimum wage laws?

The market does not guarantee anyone "a fair wage," contrary to popular belief – rather competitive markets result in competitive wages, that is, wage rates at which demand matches supply. These rates may or may not be "fair" when judged by other standards. For example, highly productive workers can find themselves facing low wages precisely because of their productivity – farmers are only too aware that high output levels can flood the market and result in low prices and low incomes. The same is true for other industries when supply outpaces demand; consider the layoffs common in automobile firms. Layoffs are a form of downward pressure on wages.

There are other situations in which the forces of supply and demand drive down wages. The seemingly unlimited supply of undocumented immigrant workers willing to work at sub-minimum wages puts downward pressure on wages. Regardless of the productivity levels of these workers, or the profit levels of the firms that employ them, this "unlimited" supply of low-cost labor will keep wages down in that market.

The minimum wage is an intervention in the labor market that mandates the minimum hourly wage rate that employers covered by the Fair Labor Standards Act can pay. Its aim is to ensure greater fairness. What constitutes a fair wage, however, is subject to debate. Is it a wage level such that a worker working fulltime year-round will be able to keep a household of one to three persons at or above the poverty level? Currently, the poverty level for one person under the age of 65 is $10,160; however, a person working 35 hours a week year-round at minimum wage is paid only $9,373. By this standard, then, the current minimum wage is too low. The poverty line for a family of three is $15,277. For others, what is fair depends on the size of the firm and on its profitability.

Whatever standard is used to determine fairness, the benefits versus the cost of a higher minimum wage must be considered. Increasing the minimum wage has beneficial effects for those receiving higher incomes: improving their health, education and well-being – not to mention their purchasing power – and in these ways contributing positively to the economy. For many, these positive effects provide the justification for increasing the minimum wage. For others, the adverse effects of higher labor costs on firms and the loss of low-wage jobs are costs that are unacceptable. In any case, knowledge of basic data relating to costs versus benefits, including the statistics provided here, enables a more informed debate.

Notes

1. Nationally, 5.8% of workers earned less than $7.25 per hour in 2004, as noted in the second paragraph of this article. If 6% of the 1.123 million Mississippi workers in the state in 2004 and received an hourly wage increase of $2.10, the increase in the total wages and salaries paid in the state, which was $34.2 billion, would have been 0.9% (assuming that these workers worked fulltime, year-round and that all received a full $2.10 additional per hour). If 10% of Mississippi workers received this increase, the percentage increase would have been 1.2% in 2004. Since the average wage rate for the bottom 20% of Mississippi workers was $7.76 in 2003, according to U.S. Census data analyzed by the Economic Policy Institute, and about half of the this 20% earned less than $7.76, the case can be made for using the 10% figure as an upper limit estimate.

2. In a study estimating the effects of the 1997 wage increase, the WEFA Group, a national consulting firm, estimated that nationwide about 20,000 workers would lose their jobs as a result of the 21% increase in the minimum to $5.15. They also found little impact on inflation, since only about 4% of all employed persons or 5 million workers earned hourly wages at or below the minimum. Those workers earned 1.5% of the total U.S. wage bill, and the 21% rise in their wages resulted

in an additional increase in compensation rates of only about 0.24%. A possible increase in consumer prices of about 0.1% was estimated.

3. In Mississippi, in 1996, almost 14% of the workforce was paid the proposed new minimum wage or less. The occupational breakdown of low-wage workers in the state, based on the 1990 Census, showed a great deal of diversity, with only a few individual occupations accounting for more than 1% of total minimum wage employment. Those making up 1.7% or more of the total were elementary teachers (1.7%), sales workers (2.2%), cashiers (8l4%), secretaries (2.2%), waiters (2.4%), cooks (5.6%), nursing aides (3%), janitors (3.3%), farm workers (3.1%), textile sewing machine operators (3.9%), assemblers (2.1%), truck drivers (2.6%), stock handlers and baggers (2.3%), and private household cleaners (1.7%). While there are fewer sewing machine operators today, the other occupational categories still likely have a concentration of minimum wage workers (the elementary teachers category includes teaching aides, tutors and assistants).

Data from the 1990 census also show that 59% of minimum wage workers then were women and 41% men. The median age for women was 29 years and for men 25 years. Forty-four percent were living in poverty. The breakdown by race and sex was: 33% white females, 26% black females, 23% while males and 17% black males. Most (61%) had a high school diploma and, of these, 52% had at least some college.

The minimum wage today equals about a third of average hourly earnings nationwide. In Mississippi, the average hourly wage in manufacturing was $13.61 in February 2006, which makes the minimum wage equal to about 38% of the manufacturing average, and somewhat over 40% of the overall average.

Sources

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